

## **Payrolling Benefits - Option for Employers (Lecture B1093 - 15.23 minutes)**

In order to reduce the number of P11D returns that require processing HMRC introduced from April 2016 the option for employers to payroll most benefits in kind. The RTI system supports the payrolling of BiKs giving employers the ability to report BiKs that have been taxed each pay run alongside taxable pay. With regard to Universal Credits the government has indicated that in the longer term earnings calculations may include an amount for BiKs where applicable.

The changes made to the PAYE regulations allows employers to payroll all benefits in kind except employer provided accommodation and beneficial loans. Where an employer opts to payroll benefits in kind their obligation to make a return, form P11D, will no longer apply, but only for those BiKs payrolled. Employers will report the value of the payrolled BiKs through Real Time Information.

Timing is key: An employer who wishes to payroll benefits must make an online application for authorisation using HMRC's payroll registration service. This must be completed BEFORE the start of the tax year. If the deadline is missed the employer will have to wait until the following tax year to start payrolling the BiKs. The application must give the employer's PAYE scheme details, select the employees and the benefit(s) which will be payrolled. Where an employer wants to stop payrolling they can make an application to withdraw from being an authorised employer. The withdrawal takes effect from the end of the tax year in which notification is given to HMRC.

Informing employees that payrolling benefits –The employer must provide their employees with letter explaining that benefits are being payrolled and what it means to them. In addition, although no P11d is required, the employer must give their employees the following information, via the payslip or a letter or note, before 1st June after the end of each tax year:

- Details of the benefits that have been payrolled
- The cash equivalent of each payrolled benefit
- Separate details of any benefits not payrolled

The employer calculates the "cash equivalent" of the benefit for payrolling in the same way as for reporting on the P11D. If the value of the benefit is not known the employer can use an estimate and adjust later in the tax year. The cash equivalent figure is then divided by the number of pay periods in the year. The result is the taxable benefit per pay day and that figure must be added to the employee's gross pay and tax calculated as usual based on the new tax code issued by HMRC.

Potential issue when payrolling BiKs and NIL pay – The payrolling of benefits works well for one off benefits with a readily identifiable cost or ongoing benefits where the cost remains the same – medical cover, gym subs. When payrolling BiKs there may be some pay periods where there is low or even NIL pay so tax cannot be collected, e.g. long term maternity, paternity or sick leave where the employee still receives their benefit. In order to protect employee's take home pay in a given period HMRC state that employers must only deduct tax to the value of 50% of an employee's gross taxable pay. This is called the overriding regulatory limit.

In that situation the employer has two options:

- Remove the benefit and employee from payroll using the online service. If they are excluded for the rest of the tax year the benefit will be brought back into their tax code so they could over or under pay tax. A P11D will then be required. If the employer wants to restart them for payroll in the new tax year they will have to wait until after filing the P11D as that will trigger the tax code amendment
- Retain the benefit and employee within the payroll and carry forward any tax underpaid into the next payday for collection if possible

#### *“Making good”*

Where the employee pays towards the cost of the benefit, “makes good”, the cash equivalent is reduced, e.g. private medical. This will apply if the employee makes good during the year or is expected to have made good the full amount by the end of the tax year. But if the employee fails to make good by the final pay period of the year the employer must work out the benefit still to be taxed, add to final salary for tax year and calculate tax due. The tax must be deducted in full unless it exceeds the 50% limit.

Making good for car and van fuel benefit – it is possible that the employer may not know how much fuel has been purchased at the end of the tax year because the invoice has not been received or the employee has not worked out their private mileage at 5th April. Once the figures are known the employee has until 1 June to make good the amount. If they fail to do so the employer must work out the fuel benefit charge and add in full to the next payroll on or after 1 June to calculate the PAYE. Where the benefit continues after 1 June the employer must recalculate the car or van fuel benefit for the current tax year, ignoring making good, and include each payday.

Making good for credit tokens – where the employer has an arrangement with an employee for them to use the business credit card and repay any private costs incurred the amount due may not be known by 5 April. The employee has until 1 June to make the cost of any benefit received. If they do not then the employer must work out the benefit to be taxed and add to first payment of salary on or after 1 June. In addition payroll the cost of any use of the credit card without taking into account the making good for the current tax year.

Class 1A NIC - a point to note for employers is that the payroll of BiKs will deal only with the collection of the tax that is due. There is no employee NIC to pay on BiKs but there is employer’s Class1A NIC payable to HMRC by 19 July after the tax year. So even though the employer may no longer have to file the P11Ds they will still have to calculate the Class 1A NIC due on the BiKs payrolled and file a P11D(b).

Where employer has registered to payroll benefits then for 2018/19:

- If all benefits for all employees have been payrolled, no P11Ds are required;
- If some benefits have been payrolled then P11Ds must be filed for the non payrolled benefits/expenses;
- If benefits for some employees have not been payrolled, P11Ds are required

*Contributed by Alexandra Durrant*